

Report  
of the  
Examination of  
United Wisconsin Insurance Company  
New Berlin, Wisconsin  
As of December 31, 2000

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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September 16, 2001

Honorable Sally McCarty  
Secretary, Midwestern Zone III, NAIC  
Commissioner of Insurance  
State of Indiana  
311 West Washington Street, Suite 300  
Indianapolis, IN 46204-2787

Honorable Connie L. O'Connell  
Commissioner of Insurance  
State of Wisconsin  
121 East Wilson Street  
Madison, WI 53702

Commissioners:

In accordance with your instructions, a compliance examination has been made of  
the affairs and financial condition of:

UNITED WISCONSIN INSURANCE COMPANY  
New Berlin, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of the company was conducted in 1998 as of  
December 31, 1997. The current examination covered the intervening period ending  
December 31, 2000, and included a review of such 2001 transactions as deemed necessary to  
complete the examination.

The examination consisted of a review of all major phases of the company's  
operations, and included the following areas:

History  
Management and Control

Corporate Records  
Conflict of Interest  
Fidelity Bonds and Other Insurance  
Employees' Welfare and Pension Plans  
Territory and Plan of Operations  
Affiliated Companies  
Growth of Company  
Reinsurance  
Financial Statements  
Accounts and Records  
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

## **II. HISTORY AND PLAN OF OPERATION**

The company was organized in 1957, as Health Insurance Corporation. The name was changed effective January 1, 1983, to that currently used; United Wisconsin Insurance Company (UWIC). The company is authorized to provide insurance on property, ocean marine, disability, liability and incidental medical expense, automobile and aircraft, fidelity, surety, worker's compensation, legal expense, and miscellaneous. UWIC was originally a directly owned subsidiary of Blue Cross & Blue Shield United of Wisconsin (BCBSUW). In 1983, BCBSUW organized a downstream holding company, United Wisconsin Services, Inc. (UWSI), which became the direct owner of all of BCBSUW's stock subsidiaries, including UWIC.

In 1990, UWSI entered into a joint venture agreement with American Medical Security, a third party administrator, to nationally market and administer small group health insurance policies issued by the UWSI subsidiary United Wisconsin Life Insurance Company.

In 1991, BCBSUW sold 18.7% of its holdings in UWSI in an initial public offering. In 1994, BCBSUW sold additional shares representing 19% of UWSI in a secondary offering and contributed shares representing 2% of UWSI to the United Wisconsin Services Foundation. As a result of these and other actions, BCBSUW's ownership percentage in UWSI was reduced to 59.7% as of December 31, 1994. In 1994, UWSI's stock was listed on the New York Stock Exchange under the ticker symbol "UWZ". In 1995, another secondary offering of UWSI stock reduced BCBSUW's ownership percentage to 49.3%.

In 1996, UWSI exercised its option under the joint venture agreement with American Medical Security to purchase the remaining interest in the joint venture, the third party administrator and its affiliates from its principal owners for \$67 million in cash and 3,694,280 newly issued common shares of UWSI. The additional share issuance reduced BCBSUW's ownership percentage to 38%. To finance the cash portion of the purchase price, UWSI borrowed \$70 million from BCBSUW under a Promissory Note and Pledge Agreement. The note was originally due on October 30, 1999, but has since been replaced to extend until January 1, 2002. The loan was secured by all of the common stock of Compcare Health Services Insurance

Corporation (hereinafter also, "Compcare"), a Wisconsin domiciled health maintenance organization (HMO).

In late 1998, the UWSI specialty products and HMO business segment was spun off to a new holding company, which took the UWSI name. The original UWSI, the holding company for the small group health insurance segment, was renamed American Medical Security Group, Inc. ("AMSG"). At the time of the spin-off, BCBSUW owned 38.1% of AMSG. AMSG's share repurchase programs have increased BCBSUW's ownership of AMSG to over 46%.

On June 14, 1999, BCBSUW filed an application with the Office of the Commissioner of Insurance (OCI) to convert from a nonprofit service insurance corporation to a stock corporation. On March 28, 2000, Commissioner O'Connell approved the plan of conversion subject to a detailed list of conditions. On March 19, 2001, the Commissioner recognized BCBSUW's application as complete and approved the conversion pursuant to her order of March 28, 2000. The conversion was consummated on March 23, 2001, and BCBSUW thereby became a stock corporation. As part of BCBSUW's conversion to a stock insurance company, UWSI changed its name to Cobalt Corporation.

In July, 2000 Cobalt Corporation contributed all the issued and outstanding shares of UWIC to Compcare. Effective December 31, 2000, Cobalt Corporation contributed all issued and outstanding shares of United Heartland Life Insurance Company (UHLIC) to Compcare.

UWIC was examined concurrently with Blue Cross Blue Shield United of Wisconsin, as of December 31, 2000. Further discussion on the conversion and combination is included in the Blue Cross Blue Shield report. UWIC's affiliates are further discussed in the section of this report captioned "Affiliated Companies."

The company (UWIC) writes direct premium in the following states:

Wisconsin	\$63,406,325	66.7%
Illinois	12,074,757	12.7%
Minnesota	7,294,455	7.7%
Michigan	4,956,753	5.2%
Iowa	2,749,589	2.9%
All others	<u>4,592,630</u>	<u>4.8%</u>
	<u>\$95,074,509</u>	<u>100%</u>

The company is licensed in Washington, DC, and in the following states:

Arizona	Maryland	Oregon
Colorado	Michigan	Pennsylvania
Delaware	Minnesota	South Carolina
Florida	Mississippi	South Dakota
Georgia	Missouri	Tennessee
Idaho	Montana	Texas
Illinois	Nebraska	Utah
Indiana	New Mexico	Virginia
Iowa	North Carolina	Washington
Kansas	North Dakota	Wisconsin
Kentucky	Ohio	Wyoming
Louisiana	Oklahoma	

UWIC's major lines of business are individual and group health, long-term and short-term disability, dental, and workers compensation. The direct sales employees of BCBSUW and a network of independent agents produce the business.

UWIC entered the workers' compensation line through United Heartland, Inc., a joint venture between BCBSUW and Aon Corporation. UWIC became the direct writer for the joint venture beginning on February 1, 1994, ceding 50% of the business to Virginia Surety, an Aon Corporation subsidiary. Effective January 1, 1995, the joint venture with Aon was terminated, and UWIC now cedes workers' compensation business to other reinsurers. On May 3, 1999, UWIC entered into a joint venture agreement with Health Care Service Corporation, United Heartland, Inc., and UWSI for the purpose of forming an Illinois corporation to underwrite and market workers' compensation insurance policies in Illinois. This corporation was to act as a Managing General Agent for UWIC and was named United Heartland of Illinois, Inc. All of UWIC's direct workers' compensation business is currently sold through United Heartland, Inc. (77%) and United Heartland of Illinois, Inc. (23%).

The following table is a summary of the net insurance premiums written by the company in 2000. The growth of the company is discussed in the Financial Data section of this report.

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Group accident and health	\$53,085,912	\$1,308,270	\$8,542,519	\$45,851,663
Other accident and health	4,151,000		4,044,175	106,825
Workers compensation	<u>37,837,596</u>	<u>1,041,148</u>	<u>13,321,972</u>	<u>25,556,772</u>
Total All Lines	<u>\$95,074,508</u>	<u>\$2,349,418</u>	<u>\$25,908,666</u>	<u>\$71,515,260</u>



### III. MANAGEMENT AND CONTROL

#### Board of Directors

At December 31, 2000, the board of directors consisted of four members. Each director holds office until the next annual meeting of shareholders for the remainder of the term for which the director has been elected and until the director's successor has been elected or there is a decrease in the number of directors, or until the director's prior death, resignation, or removal. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation for serving on the board.

At December 31, 2000, board of directors consisted of the following persons:

Name and Residence	Principal Occupation
Thomas R. Hefty Elm Grove, Wisconsin	Chairman and CEO Cobalt Corporation
Michael Bernstein Milwaukee, Wisconsin	Sr. Vice President, Acquisitions & Strategic Planning Cobalt Corporation
Thomas E. Liechty Mequon, Wisconsin	President and COO United Wisconsin Group
Gail L. Hanson Delafield, Wisconsin	Sr. Vice President, CFO, and Treasurer Cobalt Corporation

#### Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2000 Compensation
Thomas R. Hefty	Chairman and CEO	\$652,011*
Thomas E. Liechty	President and COO	171,153
Michael E. Bernstein	Vice President and Secretary	249,679*
Gail L. Hanson	Vice President and Treasurer	265,136*

\* Compensation is paid by Cobalt Corporation, and includes amounts allocated to all affiliates.

## **Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors. Individuals serving as committee members for Cobalt Corporation also serve in that capacity for UWIC. The committees at December 31, 2000, are:

### **Executive Committee**

James L. Forbes, Chair  
Richard A. Abdoo  
Thomas R. Hefty  
James C. Hickman

### **Finance Committee**

William C. Rupp M.D., Chair  
Michael D. Dunham  
Thomas R. Hefty  
Carol N. Skornicka

### **Audit Committee**

Eugene A. Menden, Chair  
Richard A. Abdoo  
Michael D. Dunham  
James C. Hickman

### **Special Committee**

Richard A. Abdoo  
Barry K. Allen  
William C. Rupp

### **Management Review Committee**

James L. Forbes, Chair  
Richard A. Abdoo  
Barry K. Allen  
James C. Hickman

#### **IV. AFFILIATED COMPANIES**

United Wisconsin Insurance Company (UWIC) is a member of a holding company system. Below is a brief description of the significant affiliates of UWIC. The organizational chart, which depicts the relationships among the affiliates in the group, as of March 31, 2001, follows the descriptions.

##### **Cobalt Corporation**

Cobalt Corporation (Cobalt), formerly known as United Wisconsin Services, Inc.(UWSI), operates as an insurance holding company for the group. UWSI was incorporated in 1998 and organized pursuant to ch. 180, Wis. Stat. UWSI was publicly traded over the New York Stock Exchange under the symbol UWZ until March of 2001. Effective March 23, 2001, UWSI changed its name to Cobalt Corporation upon completion of the conversion of Blue Cross & Blue Shield United of Wisconsin (BCBSUW) and the combination of BCBSUW and UWSI. Currently, Cobalt is traded on the New York Stock Exchange under the symbol CBZ.

Subsequent to the conversion and combination, the majority of Cobalt's common stock is owned by the Wisconsin United for Health Foundation (the foundation). The foundation's ownership percentage is dependent on whether the 16.4% of Cobalt common stock owned by BCBSUW is treated as treasury stock or not. If BCBSUW owned Cobalt stock it is considered treasury stock the foundation owns 77.5% of Cobalt. See the organizational chart, following this section for more detail.

The December 31, 2000 audited consolidated financial statements for UWSI reported assets of \$366 million, liabilities of \$349 million, and shareholders' equity of \$17 million. Operations for 2000 produced net losses of \$16 million on revenues of \$761 million.

##### **Blue Cross & Blue Shield United of Wisconsin**

Blue Cross & Blue Shield United of Wisconsin (BCBSUW) was a nonstock, service insurance corporation, incorporated in 1939, and organized pursuant to ch. 613, Wis. Stat. In June 1999, the BCBSUW Board of Directors announced its intention to convert BCBSUW from a

nonprofit service insurance corporation to a stock corporation. An application for a Plan of Conversion was filed with the commissioner on June 14, 1999. On March 28, 2000, Commissioner O'Connell approved a plan of conversion subject to a detailed list of conditions. On March 19, 2001, the Commissioner recognized BCBSUW's application as complete and the conversion under the order of March 28, 2000 was approved. Effective March 23, 2001, BCBSUW converted to stock insurance corporation and organized pursuant to ch. 611, Wis. Stat. In addition to the conversion, BCBSUW became a wholly owned subsidiary of Cobalt through a combination of BCBSUW and Cobalt on March 23, 2001.

As of December 31, 2000, BCBSUW's statutory financial statements reported assets of \$259 million, liabilities of \$155 million, and unassigned funds of \$104 million. Operations for 2000 produced a net loss of \$28 million on revenues of \$534 million.

**Wisconsin United for Health Foundation, Inc.**

Wisconsin United for Health Foundation, Inc. (the foundation) is a non-stock organization organized pursuant to Ch. 181, Wisconsin Statutes. It was created as part of the for-profit stock company. The foundation was established for the purpose of benefiting public health transaction under which BCBSUW was converted from a non-stock, non-profit organization to a initiatives developed by the University of Wisconsin Medical School and the Medical College of Wisconsin. Under a divestiture agreement, the foundation is required to sell down its holdings in Cobalt it less than 20% within five years and to contribute the proceeds from the sale to the University of Wisconsin Medical School and the Medical College of Wisconsin. The foundation was unfunded as of December 31, 2000.

**American Medical Security Group, Inc.**

American Medical Security Group, Inc. (AMSG), operates as an insurance holding company for the individual and small employer group health care benefits segments of the group. AMSG was incorporated in 1983 and organized pursuant to ch. 180, Wis. Stat.. The December 31, 2000, audited consolidated financial statements for AMSG reported assets of \$472 million, liabilities of \$251 million, and shareholders' equity of \$221 million. Operations for 2000 produced

net income of \$2.7 million on revenues of \$990 million. AMSG is publicly traded over the New York Stock Exchange under the symbol AMZ.

#### **United Government Services, LLC**

United Government Services, LLC, (UGS) is a Wisconsin limited liability company organized effective January 1, 1999, pursuant to Ch. 183, Wisconsin Statutes. BCBSUW is the sole member of UGS. UGS provides administrative, program integrity, and consulting services in connection with the publicly funded health care programs. The December 31, 2000, audited financial statements for UGS reported assets of \$22 million, liabilities of \$15 million, and shareholders' equity of \$7 million. Operations for 2000 produced net income of \$1.2 million on revenues of \$71 million.

#### **Compcare Health Services Insurance Corporation**

Compcare Health Services Insurance Corporation (Compcare) is a Wisconsin stock insurance corporation incorporated January 1, 1984, under the provisions of ch. 611, Wis. Stat. It operates as a health maintenance organization in the state of Wisconsin. Compcare's 2000 statutory annual statement reported assets of \$143 million, liabilities of \$94 million, and net worth of \$49 million. Operations for 2000 produced a net loss of \$10 million on total revenues of \$392 million.

#### **Unity Health Plans Insurance Corporation**

Unity Health Plans Insurance Corporation (Unity) is a Wisconsin stock insurance corporation incorporated on October 1, 1983, and organized pursuant to ch. 611, Wis. Stat. It operates as a health maintenance organization in the state of Wisconsin. Unity's 2000 statutory annual statement reported assets of \$39 million, liabilities of \$28 million, and net worth of \$11 million. Operations for 2000 produced a net loss of \$2.6 million on total revenues of \$160 million.

#### **Valley Health Plan, Inc.**

Valley Health Plan, Inc. (Valley), is a Wisconsin stock insurance corporation incorporated on June 1, 1988, and organized pursuant to ch. 611, Wis. Stat. It operates as a health maintenance organization in the state of Wisconsin. Valley's 2000 statutory annual

statement reported assets of \$19 million, liabilities of \$12 million, and net worth of \$7 million. Operations for 2000 produced a net loss of \$576 thousand on total revenues of \$79 million.

#### **United Heartland Life Insurance Company**

United Heartland Life Insurance Company (UHLIC) is a stock insurance company, incorporated as National Benefit Life Assurance Company on August 23, 1990 and organized pursuant to Chapter 611 of the Wisconsin Statutes. UHLIC is a wholly-owned subsidiary of Compcare and provides group term life, individual whole life, and group accidental death and dismemberment coverages. As of December 31, 2000, UHLIC's statutory annual statement reported assets of \$21 million, liabilities of \$11 million, and surplus of \$10 million. Operations for 2000 produced a net income of \$1.6 million on revenues of \$28 million.

#### **United Wisconsin Life Insurance Company**

United Wisconsin Life Insurance Company (UWLIC), is a Wisconsin stock insurance corporation incorporated in 1982 and organized pursuant to Chapter 611 of the Wisconsin Statutes. UWLIC is a wholly-owned subsidiary of American Medical Security Holdings, Inc. and provides life and health insurance and related coverages. UWLIC's 2000 annual statement reported assets of \$315 million, liabilities of \$168 million, and capital and surplus of \$147 million. Operations for 2000 produced a net income of \$7 million on revenues of \$952 million.

#### **United Heartland Illinois, Inc.**

United Heartland Illinois, Inc. is a stock corporation organized pursuant to the Illinois Business Corporation Act of 1983. United Heartland Illinois, Inc. is organized as a joint venture between UWSI and Health Care Service Corporation incorporated in the State of Illinois. United Heartland Illinois, Inc. is operated as a managing general agent in the sale and servicing of worker's compensation business in the State of Illinois. As of December 31, 2000, United Heartland Illinois, Inc.'s unaudited financial statements reported assets of \$ 7.8 million, liabilities of \$7.2 million, and stockholder equity of \$547,052. Operations for 2000 produced a net income of \$33,367 on revenues of \$3 million.

**United Heartland, Inc.**

United Heartland, Inc. is a general business corporation organized pursuant to Ch. 180, Wisconsin Statutes, for the purpose of operating as a managing general agent in the sale and service of workers' compensation business. As of December 31, 2000 United Heartland, Inc.'s unaudited financial statements reported assets of \$21.4 million, liabilities of \$20.6 million, and shareholders equity of \$778 thousand. Operations for 2000 produced a net loss of \$56 thousand on revenues of \$7 million.

**Affiliated Agreements**

The company has an agreement in place with BCBSUW and Cobalt in which these companies agree to lease officers and employees to each other. BCBSUW also agrees to provide to UWIC office space, building services, office services, central systems, administrative services, and marketing, sales and conference services. Cobalt agrees to provide to UWIC corporate support services, executive services, marketing and communications, human resources, financial services, actuarial, and underwriting. Services are provided on an actual cost basis.

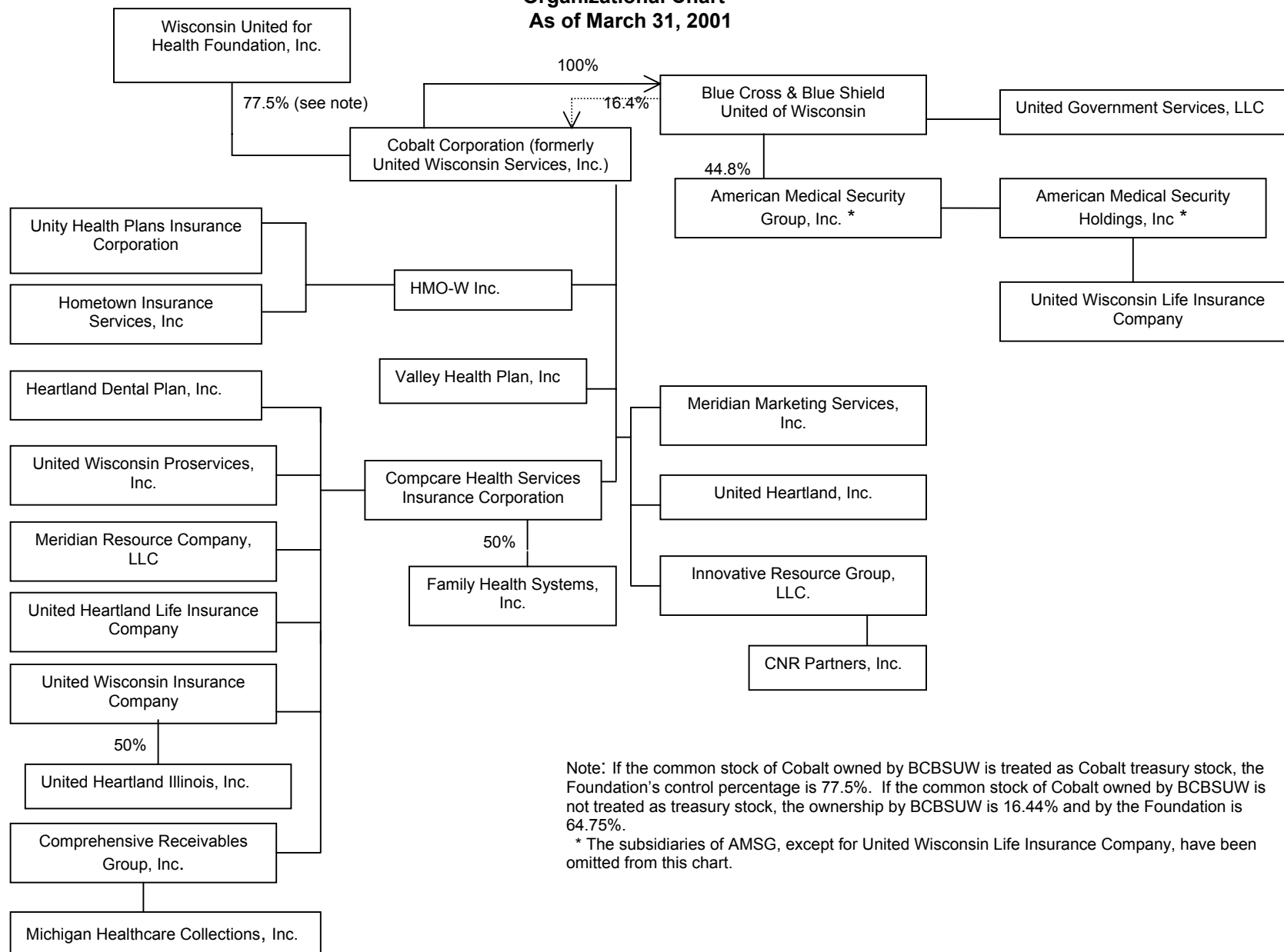
Effective January 1, 1997, UWIC and UHLIC entered into an administrative services agreement whereby, UWIC shall provide the majority of administrative and management services necessary for the continued operations of UHLIC. Under the terms of this agreement UWIC provides services such as marketing, underwriting, policy services, and claims supervision, and payments. For its services, the agreement calls for UWIC to receive an administrative fee based upon actual costs and monthly earned premium.

UWIC also provides accounting and information services for United Heartland, Inc., United Heartland of Illinois, Inc., and Heartland Dental Plan, Inc. For its services, UWIC receives a flat monthly rate, per service.

Under an administrative agreement with United Heartland, Inc., United Heartland, Inc agrees to administer and sell UWIC's workers' compensation business. For its services, United Heartland, Inc. receives an operating commission of 24% of gross premium written.



**Organizational Chart  
As of March 31, 2001**



## **V. REINSURANCE**

The company cedes business to sixteen insurance companies and assumes business from six insurance companies. The examination reviewed the five most significant ceding and the two most significant assuming reinsurance contracts. These contracts account for 95.6% of all ceded premiums and 89% of assumed premiums. The examination noted that these contracts contained proper insolvency provisions. The company does not assume a significant amount of business. Total assumed business was \$2,349,418 or 2.5% of gross premiums written.

### **Affiliated Assuming Contract**

The company assumes from United Wisconsin Life Insurance Company(UWLIC), on a 100% quota share basis, the net earned premium attributable to behavioral health insurance policies administered by CNR Health, Inc. (an affiliate) for the ceding company.

### **Nonaffiliated Assuming Contract**

UWIC assumes from Greenwich Insurance Company, on a 100% quota share basis, workers compensation and employers liability business associated with policies written or renewed in connection with the authority granted under an Underwriting Management Agreement between United Heartland, Inc.(UHI) and Greenwich Insurance Company (GIC). Under the terms of the Underwriting Management Agreement, UHI has the authority to accept or bind business subject to the following limits: 1) a limit of \$2 million of gross net written premium for all policies with effective dates of January 1, 2000 or after. 2) Policy terms shall not exceed one year. 3) Coverage limits are statutory for workers compensation and \$5 million for employers' liability. UHI will receive a commission of 28.5 % on all gross net premium written from GIC under the terms of this contract.

### **Affiliated Ceding Contracts**

UWIC cedes to Blue Cross Blue Shield United of Wisconsin (BCBSUW), on a 100% quota share basis, the group comprehensive major medical for the United Dairy Trust and United Dairy Plan business. This business is marketed and administered by BCBSUW and is underwritten by UWIC as BCBSUW is not licensed to issue direct policies in Iowa or Minnesota.

Through a 100% quota share reinsurance contract, UWIC cedes to United Wisconsin Life Insurance Company medical, dental, prescription drug, disability, and other insurance coverages in the state of Minnesota that are marketed and administered by American Medical Security, Inc.

#### **Nonaffiliated Ceding Contracts**

##### **Workers Compensation and Employers Liability**

Through two quota share reinsurance agreements, UWIC cedes workers compensation and employers liability risks marketed by UHI and United Heartland Illinois, Inc. (UHIL), to NAC Reinsurance Corporation. The risks marketed by UHI are covered for the first 20% of \$250,000 of each loss occurrence and the risks marketed by UHIL are covered for the first 50% of \$250,000 per each loss occurrence. Under various excess of loss agreements with unaffiliated reinsurers, worker's compensation and employers liability coverage are further protected by several layers of 100% excess of loss reinsurance coverage attaching at \$250,000 and running to statutory limits.

UWIC also has one unauthorized reinsurance contract with Third Coast Insurance Company. UWIC cedes, on a quota share basis 10% of workers compensation and employers liability business underwritten by UWIC and marketed by UHIL.

##### **Long-Term Disability**

The company maintains excess of loss coverage on long-term disability with General & Cologne RE of America for 90% of all claims in excess of \$75,000.

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported in the December 31, 2000, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation as of December 31, 2000. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

**United Wisconsin Insurance Company**  
**Assets**  
**As of December 31, 2000**

	<b>Ledger Assets</b>	<b>Nonledger Assets</b>	<b>Nonadmitted Assets</b>	<b>Admitted Assets</b>
Bonds	\$54,930,662	\$	\$86,620	\$54,844,042
Stocks:				
Common stocks	10,834,404	(3,317)		10,831,087
Cash	(3,135,690)			(3,135,690)
Short-term investments	11,787,217			11,787,217
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	3,136,591		344	3,136,247
Reinsurance recoverables on loss and adjustment payments	3,544,219			3,544,219
Electronic data processing equipment	269,291			269,291
Interest, dividends, and real estate income due and accrued	739,626			739,626
Receivable from parent, subsidiaries, and affiliates	2,425,368			2,425,368
Amounts receivable relating to uninsured accident and health plans	301,772			301,772
Other assets nonadmitted:				
Equipment, furniture, and supplies	169,219		169,219	
Write-ins for other than invested assets				
Other Receivable	34,350			34,350
Due From Midelfort Clinic	152,216			152,216
Claim Overpayment Receivable	17,790			17,790
Advance Reinsurance Premiums				
ERC	1,075,651			1,075,651
Premium Tax Overpayments	<u>62,581</u>	<u>        </u>	<u>        </u>	<u>62,581</u>
<b>Total Assets</b>	<b><u>\$86,345,268</u></b>	<b><u>\$(3,317)</u></b>	<b><u>\$256,183</u></b>	<b><u>\$86,085,768</u></b>

**United Wisconsin Insurance Company**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2000**

Losses	\$29,436,306
Loss adjustment expenses	3,315,321
Other expenses (excluding taxes, licenses, and fees)	414,812
Taxes, licenses, and fees (excluding federal and foreign income taxes)	181,511
Federal and foreign income taxes (excluding deferred taxes)	694,749
Unearned premiums	2,921,634
Dividends declared and unpaid:	
Policyholders	4,183,687
Funds held by company under reinsurance treaties	4,082,422
Amounts withheld or retained by company for the account of others	193,042
Provision for reinsurance	253,000
Excess of statutory over statement reserves	687,000
Payable to parent, subsidiaries, and affiliates	55,197
Liability for amounts held under uninsured accident and health plans	56,993
Write-ins for liabilities:	
Ceded Reinsurance Payable	517,872
Reserve for Experience Rated Refund	<u>932,035</u>
 Total Liabilities	 <u>47,925,581</u>
 Common capital stock	 3,000,000
Gross paid in and contributed surplus	38,811,487
Unassigned funds (surplus)	<u>(3,651,300)</u>
 Surplus as Regards Policyholders	 <u>38,160,187</u>
 Total Liabilities, Surplus, and Other Funds	 <u>\$86,085,768</u>

**United Wisconsin Insurance Company  
Summary of Operations  
For the Year 2000**

**Underwriting Income**

Premiums earned	<u>\$69,933,834</u>
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**Deductions**

Losses incurred	50,733,262
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Loss expenses incurred	5,260,611
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Other underwriting expenses incurred	<u>15,191,865</u>
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Total underwriting deductions	<u>71,185,738</u>
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Net underwriting loss	(1,251,904)
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**Investment Income**

Net investment income earned	3,591,157
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Net realized capital gains or losses	<u>(323,540)</u>
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Net investment gain or loss	3,267,617
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**Other Income**

Finance and service charges not included in premiums	6,450
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Write-ins for miscellaneous income:

Other Interest Income	347,166
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Miscellaneous Income	23,133
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Disposal of Fixed Assets	<u>(25,607)</u>
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Total other income	<u>351,142</u>
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Net income before dividends to policyholders and before federal and foreign income taxes	2,366,855
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Dividends to policyholders	<u>4,509,532</u>
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Net income after dividends to policyholders but before federal and foreign income taxes	(2,142,677)
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Federal and foreign income taxes incurred	<u>(144,189)</u>
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Net loss	<u><u>\$(1,998,488)</u></u>
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**United Wisconsin Insurance Company**  
**Cash Flow**  
**As of December 31, 2000**

Premiums collected net of reinsurance	\$70,087,074	
Loss and loss adjustment expenses paid (net of salvage or subrogation)	46,204,093	
Underwriting expenses paid	<u>14,866,744</u>	
Cash from underwriting		\$9,016,237
Investment income (net of investment expense)		3,358,973
Other income (expenses):		
Net funds held under reinsurance treaties	3,816,037	
Net amount withheld or retained for account of others	(41,239)	
Write-ins for miscellaneous items:		
Miscellaneous Income	<u>351,142</u>	
Total other income		4,125,940
Deduct:		
Dividends to policyholders paid		(4,021,845)
Federal income taxes paid (recovered)		<u>( 230,358)</u>
Net cash from operations		\$12,709,663
Proceeds from investments sold, matured, or repaid:		
Bonds	9,118,867	
Stocks	<u>23,058,272</u>	
Total investment proceeds		32,177,139
Cost of investments acquired (long-term only):		
Bonds	(13,809,914)	
Stocks	<u>(20,548,452)</u>	
Total investments acquired		<u>(34,358,366)</u>
Net cash from investments		(2,181,227)
Cash provided from financing and miscellaneous sources:		
Borrowed funds received	(1,340,000)	
Other cash provided	<u>700,426</u>	
Total		(639,574)
Cash applied for financing and miscellaneous uses:		
Net transfers to affiliates	3,189,555	
Other applications	<u>(1,197,976)</u>	
Total		<u>1,991,579</u>
Net cash from financing and miscellaneous sources		<u>(2,631,153)</u>
Net change in cash and short-term investments		7,897,283
<b>Reconciliation</b>		
Cash and short-term investments, December 31, 1999		<u>754,245</u>
Cash and short-term investments, December 31, 2000		<u>\$8,651,528</u>



**United Wisconsin Insurance Company  
Compulsory and Security Surplus Calculation  
December 31, 2000**

Assets		\$86,085,768	
Less liabilities		<u>47,925,581</u>	
Adjusted surplus			\$38,160,187
Annual premium:			
Individual accident and health	\$ 106,825		
Factor	<u>15%</u>		
Total		16,024	
Group accident and health	45,849,019		
Factor	<u>10%</u>		
Total		4,584,902	
All other insurance	21,049,884		
Factor	<u>20%</u>		
Total		<u>4,209,977</u>	
Compulsory surplus (subject to a minimum of \$2 million)			<u>8,810,903</u>
Compulsory surplus excess (or deficit)			<u>\$29,349,284</u>
Adjusted surplus			\$38,160,187
Security surplus:			
(140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million with a minimum of 110%)			<u>12,247,154</u>
Security surplus excess (or deficit)			<u>\$25,913,032</u>

**United Wisconsin Insurance Company  
Reconciliation and Analysis of Surplus  
For the Three Year Period Ending December 31, 2000**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	<b>1998</b>	<b>1999</b>	<b>2000</b>
Surplus, beginning of year	\$40,204,119	\$41,855,653	\$39,401,754
Net income	5,970,224	(1,146,684)	(1,998,488)
Net unrealized capital gains or (losses)	(1,285,382)	350,744	(378,923)
Change in nonadmitted assets	(24,398)	152,131	52,846
Change in provision for reinsurance	(42,910)	42,910	(253,000)
Change in excess of statutory reserves over statement reserves	34,000	(153,000)	1,336,000
Dividends to stockholders	(3,000,000)	(1,700,000)	
Surplus, end of year	<u>\$41,855,653</u>	<u>\$39,401,754</u>	<u>\$38,160,189</u>

**United Wisconsin Insurance Company  
Insurance Regulatory Information System  
For the Three-Year Period Ending December 31, 2000**

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the IRIS ratios.

<b>Ratio</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
#1 Gross Premium to Surplus	231%	200%	255%
#1A Net Premium to Surplus	128	131	187
#2 Change in Net Writings	40*	-4	39*
#3 Surplus Aid to Surplus	0	0	0
#4 Two-Year Overall Operating Ratio	92	99	103*
#5 Investment Yield	4.7	5.04	5.3
#6 Change in Surplus	4	-6	-2
#7 Liabilities to Liquid Assets	44	52	64
#8 Agents' Balances to Surplus	1	4	8
#9 One-Year Reserve Devel. to Surplus	-9	7	4
#10 Two-Year Reserve Devel. to Surplus	-9	-9	6
#11 Estimated Current Reserve Def. To Surplus	0	-6	-12

The exceptional result in Ratio 2 during 1998 was a result of increased premium due to the transfer of business previously written by UWLIC and overall growth with the disability and dental product lines. The exceptional result in Ratio 2 in 2000 was due to the increase in premium derived UWIC becoming the direct writer of the Unity point of service business and the

Wellmark Medicare Supplement business. The exceptional result in Ratio 4 during 2000 was a result of net operating losses for 2000 and 1999.

#### **Growth of United Wisconsin Insurance Company**

<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Surplus As Regards Policyholders</b>	<b>Net Income</b>
1998	\$71,443,974	\$29,588,321	\$41,855,653	\$5,970,224
1999	73,162,874	33,761,120	39,401,754	(1,146,684)
2000	86,085,768	47,925,581	38,160,187	(1,998,488)

<b>Year</b>	<b>Gross Premium Written</b>	<b>Net Premium Written</b>	<b>Premium Earned</b>	<b>Loss And LAE Ratio</b>	<b>Expense Ratio</b>	<b>Combined Ratio</b>
1998	\$96,848,078	\$53,607,107	\$53,369,568	69.3%	23.6%	92.9%
1999	78,647,403	51,537,591	52,296,434	83.3	22.7	106.0
2000	97,423,926	71,515,260	69,933,834	80.0	21.7	101.7

As the table above indicates the company has reported net losses two out of the three years under examination. These were primarily due to higher incurred claims on Health Maintenance Organization and workers compensation lines of business. As a result of the net losses, surplus declined 5% during the period under examination.

Gross written premium decreased in 1999 due to the decrease in written premium from AMSG's Minnesota business and from BCBUW's United Dairy business.

#### **Reconciliation of Surplus per Examination**

There were no adjustments to surplus as a result of this examination. However the following reclassifications were made.

#### **Examination Reclassifications**

	<b>Debit</b>	<b>Credit</b>
Agents' Balances	\$ 177,881	\$
Unearned Premium	897,770	
Miscellaneous Assets		<u>1,075,651</u>
Total reclassifications	<u>\$1,075,651</u>	<u>\$ 1,075,651</u>

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were thirteen specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Loss Reserves—It is recommended that the company complete its Statement of Actuarial Opinion in accordance with the NAIC Annual Statement Instructions—Property and Casualty, by referring in the opinion to tabular discount and environmental and asbestos liabilities or lack thereof.  
  
Action—Compliance.
2. Loss Reserves—It is recommended that the company's appointed actuary annually complete an actuarial report to facilitate the evaluation of the adequacy of the company's net and direct/assumed loss and LAE reserves by line of business, with reconciliation of the underlying data to Schedule P of the annual statement.  
  
Action—Compliance.
3. Loss Reserves—It is recommended that the company appointed actuary reconcile all paid loss and ALAE, case loss and ALAE, and earned premiums underlying the actuarial work papers to Schedule P – on both a direct and net basis in all future actuarial reports.  
  
Action—Compliance.
4. Loss Reserves—It is recommended that the appointed actuary explicitly address the actuarial report to the board of directors of the company in accordance with the NAIC Annual Statement Instructions—Property and Casualty.  
  
Action—Compliance.
5. General Interrogatories—It is recommended that the company correctly complete General Interrogatory 4 on all future annual statements to properly report the company's capitalization structure.  
  
Action—Compliance.
6. Investments—It is recommended that the company designate loaned securities with an "LS" per the annual statement instructions.  
  
Action—Compliance.
7. Investments—It is recommended that the company take steps to ensure that proper records are maintained concerning its securities lending transactions, pursuant to the requirements of s. Ins. 6.80, Wis. Adm. Code.  
  
Action—Compliance.
8. Affiliated Balances—It is recommended that the company report federal income taxes receivable (or payable) as Federal Income Tax Recoverable-Parent (or payable) rather than

amount due from (or to ) affiliates, in accordance with the NAIC Annual Statement Instructions—Property and Casualty.

Action—Compliance.

9. Affiliated Balances—It is recommended that the company report affiliated premium receivables as Agents' Balances or Uncollected Premiums.

Action—Compliance.

10. Affiliated Balances—It is recommended that the company report all reinsurance recoverables on paid losses should be reported in Schedule F-Part 3 and as Reinsurance Recoverables on Loss and Loss Adjustment Expense Payments, in accordance with the NAIC Annual Statement Instructions—Property and Casualty.

Action—Compliance.

11. Funds Held—It is recommended that the company only report as Funds Held by or Deposited with Reinsured Companies or as Funds Held by Company Under Reinsurance Treaties balance that are required to be withheld as specified in the reinsurance contract, in accordance with the NAIC Annual Statement Instructions—Property and Casualty.

Action—Compliance.

12. Schedule Y – Part 2—It is recommended that the company complete a common Schedule Y – Part 2 for inclusion in each of the affiliated insurers annual statements as required by the NAIC Annual Statement Instructions.

Action—Compliance.

13. Schedule Y – Part 2—It is also recommended the company report in Schedule Y – Part 2 all transactions required to be reported by the NAIC Annual Statement Instructions.

Action—Compliance.

## **Summary of Current Examination Results**

### **Unearned Premium - Workers Compensation**

For the company's workers compensation business, premiums are recorded on an installment basis to match the billing to the policyholder. However, the company calculates UEPR using the daily pro-rata method applied to the total anticipated annual billings. In cases where the premiums are not uniformly spread over the year this method misstates the UEPR, and often results in a negative UEPR. It is recommended that the company use consistent methods for recognizing workers compensation premium written and workers compensation premium earned.

### **Miscellaneous Assets**

The review of this balance indicated that the company is reporting ceded unearned premium and contingent commissions as part of this balance. It is recommended that the company include the unearned portion of ceded premium as part of the unearned premium reserve in accordance with the NAIC's Accounting Practices and Procedures Manual (SSAP 62). It is also recommended that the company report the contingent commission as part of agents balances in accordance with the NAIC's Annual Statement Instructions-Property and Casualty. These recommendations resulted in two reclassifications from Miscellaneous Assets; \$177,881 of commissions were reclassified to Agents Balances and \$897,770 of ceded unearned premium was reclassified as a debit to Unearned Premium. There was no effect of surplus from the reclassifications.

### **Executive Compensation**

The examination review of the Report on Executive Compensation (Form OCI-040) for 2000 noted that the form is not being completed correctly. For example, the company is required to list any officer or employee whose total annual compensation is in excess of \$80,000. It was noted that one officer was not included in this report and should have been. It is recommended that the company complete the Report on Executive Compensation (Form OCI-040) in accordance with its instructions.

The review of the compensation amounts being reported indicated that amounts contributed by the company in connection with employee's 401K benefits were not included on Form OCI-040 for some employees. It is recommended that the company properly include all compensation amounts when completing the Report on Executive Compensation (Form OCI-040).

### **Subsequent Events**

On the June 30, 2001 quarterly statement filed with OCI on August 15, 2001 the company indicated in footnote 10 that it had loaned its affiliate, Cobalt \$14,500,000 on March 26, 2001, and another \$4,000,000 on June 29, 2001. UWIC includes the \$18.5 million as an asset "receivable from parent, subsidiaries, and affiliates". The company failed to advance report these distributions to OCI in violation of ss. 617.21, 617.22, 617.225, Wisconsin Statutes, and s. Ins 40.04, Ins 40.18, and s. Ins 41.05 Wisconsin Administrative Code. The proceeds of these distributions were used by Cobalt to make capital contributions to Compcare, which is UWIC's immediate parent. Therefore, in Compcare's 2001 first and second quarter statutory financial statements the \$18.5 million is double counted as both contributed capital and also in the carrying value of its subsidiary UWIC, which has the balance reported as a receivable from parent, subsidiaries, and affiliates. Cobalt later formalized the transaction by executing a note and pledged the shares of several subsidiaries to collateralize the loan. At December 31, 2001, UWIC nonadmitted the amount of the loans in excess of the value of the pledged collateral. It is recommended that UWIC not make any additional distributions to affiliates unless filed in advance with OCI and not disapproved.



## **VIII. CONCLUSION**

Effective May 2000 the company changed from being a wholly owned subsidiary of United Wisconsin Services Inc., now known as Cobalt Corporation, to being a wholly owned subsidiary of Compcare Health Services Insurance Corporation.

During the last two years of the period under examination UWIC had net losses. As a result, surplus has declined by 5% during the period under examination. The losses were primarily due to higher incurred claims on group health and workers compensation lines of business.

As described in the Subsequent Events section of the report, the company made \$18.5 million of unauthorized loans to Cobalt Corporation in violation of Wisconsin Statutes and the Wisconsin Administrative Code. The examination recommends that UWIC not make any future unauthorized distributions to affiliates.

The current examination resulted in six recommendations and no adjustments to surplus. The recommendations are summarized on the next page. The company has complied with the prior examination's recommendations.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 28 **Workers Compensation Premium**—It is recommended that the company use consistent methods for recognizing workers compensation premium written and workers compensation premium earned
2. Page 28 **Miscellaneous Asset**—It is recommended that the company include the unearned portion of ceded premium as part of the unearned premium reserve in accordance with the NAIC's Accounting Practices and Procedures Manual (SSAP 62).
3. Page 28 **Miscellaneous Asset**—It is also recommended that the company report the contingent commission as part of agents balances in accordance with the NAIC's Annual Statement Instructions-Property and Casualty.
4. Page 28 **Executive Compensation**—It is recommended that the company complete the Report on Executive Compensation (Form OCI-040) in accordance with its instruction.
5. Page 29 **Executive Compensation**—It is recommended that the company properly include all compensation amounts when completing the Report on Executive Compensation (Form OCI-040).
6. Page 30 **Subsequent Events**—It is recommended that UWIC not make any additional distributions to affiliates unless filed in advance with OCI and not disapproved.

## **X. ACKNOWLEDGMENT**

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Lori Cretney	Insurance Financial Examiner
Tom Janke	Insurance Financial Examiner
Sarah Haeft	Insurance Financial Examiner

Respectfully submitted,

Eleanor Opprieht  
Examiner-in-Charge